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Mellon Bank

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December 11, 1997

Ms. Cynthia L. Johnson
Director, Cash Management Policy and Planning Division
Financial Management Service
U.S. Department of the Treasury, Room 420
401 14th Street S.W.,
Washington, D.C. 20227

Re: Comments to Proposed Rule regarding Federal Payments via EFT (EFT 99)

Dear Ms. Johnson:

Mellon Bank, N.A. would like to take this opportunity to commend the Department of Treasury on its initiatives to implement the Debt Collection Improvement Act of 1996. It is a tremendous challenge to transition Federal payments from paper to EFT while simultaneously safeguarding the interests of the recipients. Mellon also applauds your efforts of giving "unbanked" recipients the opportunity to become part of the traditional financial system. We recognize the enormous effort that Treasury has already put forth in bringing EFT 99 to this point and we realize that it is time for financial institutions to step forward and support such an important undertaking.

Why Mellon Bank is Responding to the Proposed Rule.

Mellon is one of the nation's leading financial institutions. With balance sheet assets of $43 billion and about $1.3 trillion in assets under management or administration, Mellon's success is demonstrated by strong, consistent financial performance, and most importantly, by its track record of meeting customer needs with high-quality products.

Mellon has been a business partner of the Government's for the last 25 years and currently serves more than 50 independent and quasi-Federal agencies. Because of our vast experiences with the Federal Government, Mellon wanted to share our thoughts on the EFT 99 Proposed Rule.

Mellon's Responses to the Questions from the Proposed Rule.

Overall, Mellon suggests that Treasury consider recommending only minimum guidelines for the ETA instead of defining the exact account specifications on which financial institutions should bid. Banks participating with the Treasury on this initiative should be instructed to build an ETA in accordance with Treasury's minimum account requirements. We believe that FMS should allow financial institutions to offer a broad range of services, competing for the consumers' business, rather than deciding the details of the services. For example, the designated financial institutions may be required to offer ETAs that are covered by Regulation E (without the statementing requirement), that are insured up to $100,000 per recipient by the FDIC, that allow for unlimited free on-us ATM and POS transactions and that do not have monthly service charges in excess of a certain amount. This gives consumers a choice of services that best meet their needs, and does not require that FMS make product and service decisions in politically charged environment.

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Moreover, minimum guidelines, defined by the Treasury, would promote competition among banks, eliminate the possibility of creating a monopoly for any one bank, and more importantly, guarantee fairness and opportunity for recipients to choose the ETA that best matches their needs. It is, however, critical to limit the number of banks in a designated area or region of the country to ensure that control is maintained.

Payments to vendors have had less success in being converted to EFT than those to individuals. This is caused, in part, because some government agencies may not be able to addend remittance information to their payment records, and because not all vendors have a relationship with a financial institution that can accept these remittance data. To carry out the spirit of the law, and because no vendor waivers are anticipated to be granted, FMS may want to consider designating one or more financial agents to support agencies and to operate as a clearinghouse for vendor payments that cannot be made electronically due to the vendor's financial institution not being able to accept the remittance data. The new NACHA rules for RDFIs will certainly help, but may still leave gaps. The financial institution clearinghouse could, for example, receive payments and remittance data as the FMS financial agent, send the payment on to the vendor's financial institution, and FAX or transmit on the Internet the remittance data. Such a financial agent relationship could be stand-alone or part of the proposed ETA solicitation for more general payment services and support.

As previously noted, Mellon strongly believes that FMS should only provide general guidelines for the ETA and allow competitive market forces determine specific product features; however, should FMS decide to define the exact specifications of the ETA and designate geographical regions of the country for ETA agreements with selected banks, then our responses to the questions are as follows:

Question:
Should Treasury make available a debit card-based account to individuals who are required to receive Federal payments by EFT and who do not have an account of their own with a financial institution?

Mellon Response:
Yes, a debit card-based account should be the primary option for ETA disbursements, especially for those recipients who do not have a bank account. The card could give the recipient either automatic teller machine (ATM) and/or point-of-sale (POS) access to the Federal benefit, assisting in acclimating the previously unbanked recipient to the financial services industry. While education about debit card use is essential for a newly banked recipient, it is equally important that the financial institution provide a Customer Service Unit (CSU) to support the ETA customer. This will alleviate most uncertainties of previously unbanked customers and allow them to become active members of today's financial mainstream.

As noted by various focus groups, we agree that there will still be reluctance in converting from a paper check. We believe that for recipients not qualified for a waiver, but who are extremely reluctant the receive their benefits through the use of a debit card-based account, a check option should also be offered through financial institutions. Federal benefits could be sent via EFT, and the bank, in turn, would produce a check and mail it to the recipient. Because the financial institution's ACH system accepts the deposit from the Treasury before the effective date of the disbursement, the bank could produce and mail checks to the recipient, which should be received on the same day as their former Treasury check. The financial institution could also assist in cashing the check through their own network or affiliate relationships.

This delivery method accomplishes two goals -- first, it allows a reluctant recipient to continue to receive his/her benefits in the form of a check, and second, it allows the check recipient a first glimpse of the banking system since the check is a result of EFT. Continued education about the ETA could eventually convert the customer to a completely electronic debit card-based account. Moreover, this delivery method allows the Treasury to accomplish its goal of complying with the EFT 99 initiative and still satisfy recipients.

Question:
Should the cost of the account to the recipient be the most important factor for selecting the account structure and/or the account providers, or should the account structure be designed to meet other objectives even if the cost to recipients is increased as a result? If the latter, which objectives? What is an appropriate standard by which to weigh tradeoffs between increased costs and additional account features?

Mellon Response:
Cost is extremely important and must be kept at an absolute minimum. According to studies regarding the unbanked, cost is one factor that causes hesitancy for Federal benefit recipients to convert their paper check into an electronic account.

To help make this program a success initially, Mellon suggests a low cost, basic electronic account or check. This allows new participants of financial services the opportunity to understand ETAs and the advantages of electronic deposits and disbursements. Education is a key but experience will be a crucial factor. As the program matures, new recipients and previous recipients, who become more familiar with electronic banking services, may enjoy new features added to the basic ETA. Mellon would suggest that options be available with enhanced features that include a debit card that has credit card acceptance by merchants. By using a debit card such as one with a with a MasterCard logo, recipients would have the purchasing power of a credit card without the high costs or annual fees of secured cards or some traditional revolving credit cards. Of course, an off-line debit card, with MasterCard acceptance, increases a financial institutions' susceptibility to fraud, so the account cost would be slighlty higher or minimum balances would be required to help offset the potential fraud.

Mellon believes that another way to keep costs down is to streamline the sign-up process for recipients. Treasury should work with the financial institution to develop a low cost solution so that savings can be passed on to the recipients. Mellon suggests a transmission from the Federal agency to the bank either through an electronic transmission or the Internet.

Question:
Should the account be structured to provide only a basic withdrawal service at the lowest possible cost, with additional service charges for additional features, or should the account offer a range of services at a fixed monthly cost, even if greater than the cost of a basic account?

Mellon Response:
The ETA should be a basic, low cost account with ATM and limited POS access. For recipients who desire a debit card with credit card-like acceptance at merchants nationwide, this type of card could be offered. As noted above, because of the risks associated with an off-line debit card, the cost for the plus account would be incrementally higher.

Question:
How many withdrawals should be included in the base price of the account? Should the account terms address the charges imposed by automated teller machine owners other than the account provider?

Mellon Response:
To keep the cost of the ETA at an absolute minimum, there would need to be a limit on free ATM withdrawals. While recipients would be encouraged to leave funds on deposit, articles have shown that "float" on these accounts would be minimal since recipients are likely to withdraw all the funds at once. Initially, it appears that free withdrawals should be limited to one or two per month. With experience and confidence that funds are available, a customer may leave funds on deposit for longer periods, helping to offset any cost increases to the account.

Presently, Mellon Bank account holders using Mellon Bank ATMs do not incur ATM service charges. However, when withdrawals are made at "foreign" (i.e. non-Mellon) ATMs, Mellon account holders are subject to that bank's surcharge. Unfortunately, Mellon cannot dictate the policies and fee structures of other institutions; therefore, ETA account holders would be subject to the same service charges from the ATM-owning bank as other Mellon Bank customers. Networks could be built for the Federal benefits card, but it would require the coordination of participating financial institutions.

Question:
Should the account structure provide for additional electronic or nonelectronic deposits within the basic monthly service charge? If so, what number of deposits?

Mellon Response:
Because the very nature of the ETA is that it is an account designed to receive electronic deposits, additional electronic deposits should be allowed into an ETA at any time; however, non-electronic deposits could not be accepted. At anytime, an ETA account holder could convert his/her ETA account into a traditional bank account that accepts unlimited deposits.

Question:
Should the account provide for some number of third-party payments, such as payments for rent or utility bills? If so, how many third party payments should be provided for and should they be priced in the basic monthly service charge?

Mellon Response:
The features of the ETA account that we feel are most important are price, accessibility, and customer support. Adding such features as bill paying services will increase the cost of a basic account. As the customer becomes acclimated to the financial mainstream, a recipient could, at any time, choose a traditional bank account that offers this feature and more; however, we believe that the ETA account should be inexpensive, easy to understand, have basic options, and be supported by a dedicated customer service unit.

Question:
Should the account include a savings feature? How would such a feature operate? Would additional free withdrawals or the capability to accept deposits other than the Federal payment act to foster savings by the recipient?

Mellon Response:
As Mellon has stated previously, we believe that the success of the ETA will be impacted by the cost of the account. Adding saving features would increase the account cost with little benefit in the way of true

savings interest. We do agree that recipients should have the opportunity to own a savings account and recommend a traditional saving account to accommodate this need. In lieu of an ETA account, recipients could open a traditional savings account to accept their Federal benefits.

Question:
How important is a broad geographic reach to meeting the access objectives that most recipients will want? How should Treasury best meet access needs in underserved areas?

Mellon Response:
Mellon agrees that there should be no reason a recipient should be inconvenienced or, worse, prevented from accessing his/her Federal benefit; and while the ATM network is extensive, there will be isolated situations where a recipient is unable to access his/her funds because an ATM is not available. An option to consider is using the United States Postal Service as a funds disbursement site in a remote, underserved area. Mellon also has suggested earlier the ability to issue a check to a recipient, which would overcome the electronic access challenge. These solutions may alleviate some of the geographic barrier waivers that have been proposed for recipients who are caused hardships when their funds are sent electronically and can only be accessed through an ATM.

Question:
Should access to the account be provided at outlets in addition to those normally offered by the financial institution providing the account? For example, should arrangements be permitted under which third parties may offer other means by which a recipient may, in effect, withdraw funds from the account. If yes, should there be any restrictions on where additional access may be provided or under what terms it can be offered?

Mellon Response:
As a national bank, Mellon feels that Federal benefit recipients' need are best served by an institution that is Federally-insured. If deposits are made to non-financial institutions, costs to the recipients will most likely be higher since the EFT must first go through a financial institution and then be passed onto a third party. Higher costs will impact the success of this initiative.

Question:
If additional access is offered through arrangements with third parties, should the cost of this additional access be included in the pricing proposal in the competitive bid process?

Mellon Response:
Please see our response to the question above.

Question:
Which account design would provide the appropriate opportunity for non-financial institutions to participate in the delivery of services to Federal payment recipients?

Mellon Response:
Please see our response to the question above.

Miscellaneous Comments.

We believe that a Customer Service Unit (CSU) should be dedicated to ETA customers. Since this is most likely the first exposure of an ETA customer to a financial institution, a dedicated CSU should be required of the bank. Because of the insecurity and uncertainty on the part of ETA customers, the CSU is a critical component to the success of EFT 99. The Unit should be capable of answering questions relating to balance, fees, statements and additional products. A Voice Response Unit (VRU) should be available to facilitate prompt responses to most frequently asked questions. In addition, customer service representatives should staff phone lines when additional information or clarification is required.

While we are disappointed that waiver options were put into the proposed rule, we understand and support your decision. We do, however, hope that private sector programs will minimize the instances in which opened-ended waivers are utilized. With a well-designed, simple, and affordable ETA, we are optimistic that the vast majority of recipients will have an acceptable account available, assisting in achieving the Federal Government's goal set forth in EFT 99.

If you have any questions on Mellon's views, please do not hesitate to call me at 412-234-0354.

Respectfully Submitted,

Kenneth W. Potter
Vice President
Mellon Bank, N.A.